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SUBJECT: IMF AND GABON TALK OF A 3-YEAR PROGRAM

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Classified By: Michael Garcia, Economic Officer, for reasons 1.4(d)

¶1. (SBU) Summary: After a June 19-30 visit, the IMF will return to Gabon in September to assess the GoG's progress in three areas: decreasing the non-oil budget deficit, improving public finances, and accelerating the improvement of the business climate. If sufficient progress is made, Gabon may have its 3-year precautionary stand-by arrangement by the end of 2006. Many observers believe the GoG will not be able to carry out its stated intentions during an election year, and an IMF program will be deferred once again. End Summary.

¶2. (U) An IMF delegation visited Gabon from June 19-30 at the GoG's request to re-start negotiations on a 3-year precautionary stand-by arrangement. EconOff met informally with a member of the delegation (Anton A.F. Op de Beke, Sr. Economist) on June 28 and the head of the delegation (Roger Nord) briefed the donor community on June 30. Both outlined the three objectives the GoG must meet before an agreement can be reached on a new program.

Three Objectives

¶3. (SBU) The centerpiece of the IMF's engagement with Gabon is the need to carry out adjustments so that Gabon can manage its own deficit in the expected post-oil economy (Reftel). (Estimates suggest that Gabon's oil production will decrease by half in 20 years and be depleted in 30 years.) Gabon's budget for 2006 features a non-oil deficit 12.5% of GDP. Nord told donors that by the end of a three-year program Gabon's non-oil deficit should be only 5.6% of GDP. To demonstrate its commitment to tackle this issue, the GoG should make immediate adjustments that will bring this to 8.5% by the end of 2006. According to Op de Beke, the GoG will provide the IMF data in October that will demonstrate if they are on the right track.

¶4. (U) The second objective is improvement in the GoG's public finances, with a focus on transparency. The IMF wants to see improvements in three particular areas. First, the state should make public the bidding and awarding of public works. This is particularly true with the "fetes tournantes," infrastructure projects awarded with no transparency and for which there is little if any accountability. Second, the budget for the national day celebrations should be made public and put on the books like any other state expenditure. Finally, the GoG should account for its fuel product subsidies in its budget and reduce (if not eliminate) this subsidy overtime. These subsidies cost

the GoG CFA 70 billion (\$140 million) in 2005 and the cost is expected to reach CFA 100 billion (\$200 million) in 2006 (Reftel). Nord stated that it would be up to the GoG to decide how best to reduce this subsidy, but suggested they could start by eliminating the jet kerosene subsidy that only benefits the airlines.

15. (U) The final objective is accelerating improvement of the business climate. According to Nord, there is no lack of ideas in this respect, just lack of initiative. He hoped that the privatization of Air Gabon and Gabon Telecom would make significant progress by September. He stated that the GoG's first EITI report was a good step and that the next report (due at the end of this year) would be more complete by including profit oil and revenues from the mining sector.

The Road Ahead

16. (U) In an informal meeting with EconOff, Op de Beke stated an optimistic scenario could provide the GoG its 3-year program by the end of 2006. He said the IMF team will return in September for further talks and to assess the GoG's progress in the three areas above. In October the IMF would be provided the revised 2006 budget and the 2007 budget. If all looks good, Gabon's program would go to the IMF Board for review and could be approved in December with a retroactive start date of October 2006.

17. (C) Op de Beke doubted that this optimistic scenario would be realized. He said that, while the GoG has exercised discipline in the past, the current climate is not optimal for restraint. While spending associated with the "fetes tournantes" have always been a problem, Op de Beke pointed to the legislative elections in December as a bigger concern. Moreover, Op de Beke pointed to the possible collapse of the World Bank's forest program as a major concern. At the moment the GoG has a \$15 million budget support loan for natural resource management on offer from the World Bank contingent on forest sector reform (collection of taxes from timber companies, dissolution of the state monopoly timber company, etc.). To date the GoG has not made progress on these reforms. According to Op de Beke, if this World Bank program collapsed, it would be difficult to imagine the IMF approving a program this year.

18. (C) Comment: While Gabon's oil production is declining, the high price of oil has augmented the government's revenues so that it can continue to pay off its debt and overspend for political reasons. Reformers in government wish to use the IMF to reign in spending and improve Gabon's position with creditors (Paris Club), while preparing Gabon for future declines in oil revenues. The reform agenda is made difficult by the fact that there is no pressing need for the GoG to reach an agreement with the IMF, or to cut spending; in 2005, while the non-oil deficit rose to 12% of GDP, oil revenues meant the overall budget was in surplus by 10% of GDP, and the balance of payments was in surplus by 16% of GDP. If, against the odds, the GoG is able to show enough progress over the next few months to satisfy both the World Bank and the IMF, it will indicate that the reformers have a great deal more influence than was generally believed.

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